

Message Text

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C O N F I D E N T I A L SECTION 1 OF 12 USNATO 2846

E. O. 11652: XGDS-1

TAGS: NATO, FR, ETRN, ENRG

SUBJECT: CENTRAL EUROPE PIPELINE SYSTEM (CEPS)

REF: USNATO 2754

BEGIN SUMMARY. SYG HAS KEPT HIS PROMISE AS REPORTED REFTEL TO DISTRIBUTE BOARD OF AUDITORS REPORT CONCERNING CEPS IN FRANCE AND THE FRENCH REPLY THERETO. DOCUMENT HAS BEEN GIVEN RESTRICTED CIRCULATION WITH SUGGESTION THAT PERM REPS AGREE UNDER SILENT PROCEDURE WITHIN 3 WEEKS TO REFER MATTER TO EXPERTS IN CEPPC. INTERNATIONAL STAFF INDICATES THAT SYG DESIRES TO KEEP MATTER OUT OF 15- NATION FORUM BECAUSE CERTAIN NATIONS SUCH AS TURKEY COULD USE IT AS A VEHICLE TO REOPEN PERENNIAL QUESTION OF FINANCIAL SUPPORT FOR TURKISH PIPELINES. MISSION CONTINUES TO BELIEVE THAT PERMREPS SHOULD FOCUS ON THIS REPORT PRIOR TO MEETING OF THE EXPERTS, BUT THIS COULD PERHAPS BE DONE BY A MEETING OF THE CEPPC (CENTRAL EUROPE PIPELINE POLICY COMMITTEE) AT PERMREP LEVEL, THUS LIMITED TO THE 8 MEMBER NATIONS. MISSION WILL FORWARD ADDITIONAL COMMENTS SEPTEL. END SUMMARY.
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1. PO/73/73 IS QUOTED BELOW:

BEGIN QUOTE:

SPECIAL REPORT BY THE NATO BOARD OF AUDITORS ON CERTAIN CONTRACTS
RELATING TO THE NATO CENTRAL EUROPE PIPELINE SYSTEM

ATTACHED YOU WILL FIND A COPY OF A SPECIAL REPORT SUBMITTED TO ME BY THE CHAIRMAN OF THE NATO BOARD OF AUDITORS ON CERTAIN CONTRACTS FOR THE CIVIL USE OF PORTIONS OF THE NATO CENTRAL EUROPE PIPELINE SYSTEM (CEPS). AS THESE CONTRACTS ARE ALL CONCERNED WITH THE MOVEMENT OF FUEL IN FRANCE, I PASSED THE REPORT TO THE FRENCH PERMANENT REPRESENTATIVE FOR INITIAL COMMENT. I HAVE RECEIVED HIS REPLY, A COPY OF WHICH IS ALSO ATTACHED.

2. I AM PASSING THESE TWO DOCUMENTS TO YOU BECAUSE THE CHAIRMAN OF THE BOARD OF AUDITORS USED THE METHOD OF A SPECIAL REPORT TO BRING THE MATTER TO THE DIRECT ATTENTION OF THE COUNCIL. HOWEVER, IN VIEW OF THE COMPLICATED NATURE OF THIS SUBJECT IT SEEMS TO ME THAT IT SHOULD BE EXAMINED FIRST BY THOSE NORMALLY CONCERNED WITH THE CONTROL OF THE CEPS.

3. THE CHARTER OF THE CEPS (C- M(65)49) GIVES THE FINANCIAL RESPONSIBILITY OF THE OPERATION AND MAINTENANCE OF THE CEPS TO ITS MEMBER STATES, THAT IS THE EIGHT USER NATIONS, WHO EXERCISE THIS THROUGH THE CENTRAL EUROPE PIPELINE POLICY COMMITTEE (CEPPC). THE CHARTER ALSO LAYS DOWN THE PROCEDURE FOR THE AUDIT OF ACCOUNTS, INCLUDING THE FOLLOWING PARAGRAPH:

" THE REPORT OF THE NATO BOARD OF AUDITORS SHALL BE SUBMITTED TO THE CEPPC FOR DECISIONS. A COPY OF THIS REPORT SHALL BE ADDRESSED TO THE SECRETARY GENERAL OF NATO FOR INFORMATION. THE CEPPC SHALL TRANSMIT THIS REPORT AND ITS ANNEXES TOGETHER WITH ITS COMMENTS AND DECISIONS TO THE NORTH ATLANTIC COUNCIL."

4. I SUGGEST THAT THIS NORMAL PROCEDURE SHOULD NOW BE APPLIED IN THE PRESENT CASE. THE SPECIAL REPORT TOGETHER WITH THE FRENCH COMMENTS THEREON SHOULD BE SENT TO THE CEPPC FOR EXAMINATION. THE CEPPC SHOULD CONSIDER THE MATTER AFTER (FOOTNOTE: THIS DOCUMENT INCLUDES: 2 ANNEXES) OBTAINING DETAILED COMMENTS FROM
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THE GENERAL MANAGER OF THE CENTRAL EUROPE OPERATING AGENCY ON BOTH DOCUMENTS AND THE BOARD OF AUDITORS ON THE FRENCH REPLY. THE CEPPC SHOULD THEREAFTER ADVISE THE COUNCIL OF ITS CONCLUSIONS.

5. IN THIS WAY THE MATTER IS BROUGHT TO THE ATTENTION OF THE COUNCIL BOTH AT THE BEGINNING AND THE END OF THE PROCEDURE, WHILE THE NORMAL CHANNELS WHEREBY EXPERT ADVICE IS OBTAINED ARE USED TO THE MAXIMUM EXTENT.

6. I THEREFORE INVITE PERMANENT REPRESENTATIVES TO TAKE PRELIMINARY NOTE OF THE SPECIAL REPORT OF THE NATO BOARD OF AUDITORS AND AGREE THAT IT SHOULD BE HANDLED BY THE PROCEDURE I HAVE SUGGESTED ABOVE. IF WITHIN THREE WEEKS NO PERMANENT REPRESENTATIVE HAS VOICED ANY OBJECTIONS I SHALL PROCEED ON THOSE LINES.

(SIGNED) JOSEPH M. A. H. LUNS

FRENCH DELEGATION TO THE BRUSSELS,
NORTH ATLANTIC COUNCIL 9 TH MARCH, 1973
NO. 167

MY DEAR SECRETARY GENERAL,

LAST DECEMBER YOU SENT ME A SPECIAL REPORT BY THE BOARD OF
AUDITORS, WHICH WAS DATED 30 TH OCTOBER BUT HAD NOT YET BEEN ISSUED,
CONCERNING CERTAIN CONTRACTS CONCLUDED IN FRANCE FOR THE CIVIL USE
OF PORTIONS OF THE NATO CENTRAL EUROPE PIPELINE SYSTEM. YOU
ASKED ME TO SUBMIT THE REPORT TO MY AUTHORITIES FOR COMMENT.

THE AUDITORS' REPORT HAS NOW BEEN EXAMINED BY THE DIFFERENT
DEPARTMENTS CONCERNED AND I HAVE BEEN REQUESTED TO FORWARD TO YOU
THE ATTACHED DETAILED MEMORANDUM.

THE MEMORANDUM AND ITS ANNEXES PROVIDE A FULL AND DETAILED
ANSWER TO THE CRITICISMS CONTAINED IN THE AUDITORS' REPORT.
IT WILL BE FOR YOU TO DECIDE WHAT FOLLOW- UP ACTION SHOULD BE TAKEN.

AS MR. DE STAERCKE WAS PRESENT AT OUR MEETING, I AM SENDING HIM
A COPY OF THIS LETTER AND ITS ANNEXES.

YOURS SINCERELY,
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MR. J. M. A. H. LUNS,
SECRETARY GENERAL,
NORTH ATLANTIC TREATY ORGANIZATION,
BRUSSELS

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C O N F I D E N T I A L SECTION 2 OF 12 USNATO 2846

DETAILED MEMORANDUM ON DOCUMENT BAI(R-85/72)2216

IN ORDER TO APPRECIATE THE EXACT SIGNIFICANCE OF BAI(R-85/72)
2216 IT IS FIRST NECESSARY TO SUMMARIZE THE PROCEDURES APPLYING
TO THE CIVIL USE OF THE NATO CENTRAL EUROPE PIPELINE SYSTEM.

THE USE OF THE CEPS FOR " NON- NATO" PURPOSES IS GOVERNED BY
SPECIAL RULES WHICH HAVE BEEN WORKED OUT OVER THE YEARS.

SINCE THE CHARTER OF THE SYSTEM (C- M(56)129) DID NOT
PROVIDE FOR CIVIL USE, THE NATO PIPELINE COMMITTEE ATTEMPTED, AS
LONG AGO AS 1959, WITHIN THE CONTEXT OF GENERAL GUIDELINES
(C- M(59)93) ((1) PEACETIME USE OF THE NATO PIPELINE SYSTEM FOR
OTHER THAN NATO MILITARY PURPOSES.), TO DEFINE PROCEDURES FOR
SUCH USE OF THE SYSTEM.

HAVING FAILED TO DO SO, IT ENTRUSTED THE CEPPC WITH THE TASK OF
WORKING OUT SUCH PROCEDURES (C- M(60)81) ((2) DETAILED PROCEDURES
FOR THE PEACETIME USE OF THE NATO PIPELINE SYSTEM FOR OTHER THAN
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NATO MILITARY PURPOSES; PARAGRAPH 9(A) OF THIS DOCUMENT READS:
" ALL AGREEMENTS CONCERNING THIS USE (NON- NATO) IN THE CENTRAL EUROPE
REGION ARE SIGNED ACCORDING TO A PROCEDURE TO BE LAID DOWN BY THE
CENTRAL EUROPE PIPELINE POLICY COMMITTEE.). THESE WERE DEVELOPED
AS FROM 1963, WITHIN THE CEPPC, BY SUCCESSIVE STAGES BEGINNING
WITH THE FIRST MOVEMENTS IN THE NETHERLANDS AND FRANCE.

THEY COMPRISE THREE DIFFERENT PHASES ((3) IN THIS CONNECTION,
SEE THE PHOTOCOPY OF THE FIRST PAGE OF AC/120- D/680 AT ANNEX I.).

(1) IN THE FIRST PLACE, THE HOST COUNTRY ESTABLISHES A DOCUMENT
SETTING OUT GENERAL CONDITIONS (DURATION, QUANTITY, TAXES,
TARIFFS AND THE LIKE) FOR THE MOVEMENT IN QUESTION. THIS
DOCUMENT IS SUBMITTED FOR APPROVAL TO THE CEPPC, WHICH DECIDES
WHETHER THE MOVEMENT PRESENTS A FINANCIAL ADVANTAGE FOR THE
SYSTEM, AND TO THE CEPO, WHICH CHECKS THAT THE MILITARY SAFEGUARDS
HAVE BEEN OBSERVED.

(2) NEXT, A TECHNICAL AGREEMENT SETTING OUT THE PRACTICAL
ARRANGEMENTS FOR THE OPERATION IS SIGNED BY THE CEOA AND THE HOST
COUNTRY, REPRESENTED BY THE SERVICE NATIONAL DES OLEODUCS INTER-
ALLIES (SNOI). THIS AGREEMENT IS ALSO APPROVED BY THE COMMITTEES.

(3) LASTLY, A CONTRACT GOVERNED BY MUNICIPAL LAW IS CONCLUDED BETWEEN THE HOST COUNTRY (SNOI) AND THE OIL COMPANY CONCERNED. THIS CONTRACT CONTAINS ALL THE CLAUSES IN THE GENERAL CONDITIONS AND THE TECHNICAL AGREEMENT, PERTAINING TO THE OBLIGATIONS TOWARDS NATO, TOGETHER WITH SPECIAL PROVISIONS WHICH COME WITHIN THE SOLE PROVINCE OF THE HOST COUNTRY, PARTICULARLY OF AN ECONOMIC, FINANCIAL, TECHNICAL AND ADMINISTRATIVE NATURE (TAXES, CUSTOMS FORMALITIES, SPECIFICATIONS, SECURITY, INVOICING, JURISDICTION).

THE AUDITORS' REPORT ITSELF CAN NOW BE EXAMINED.

PAYMENTS TO TRAPIL (PAGES 2, 3 AND 4).

I. CONTRARY TO WHAT THE REPORT SEEMS TO INTIMATE (PAGES 2, 3 AND 4), DIRECT PAYMENTS BY THE OIL COMPANIES TO TRAPIL ARE NOT A RECENT DEVELOPMENT BUT HAVE BEEN GOING ON FOR MORE THAN SEVEN YEARS, I. E. EVEN BEFORE FRANCE WITHDREW FROM NATO.
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THE FIRST CONTRACTS TO INCLUDE AN ARTICLE 18 ENTITLED " RIGHTS AND OBLIGATIONS OF TRAPIL" WERE THOSE CONCLUDED ON 30 TH AUGUST, 1965 WITH SHELL AND BP FOR MOVEMENTS ON THE LAVERA- STRASBOURG LINE.

THIS ARTICLE WAS WORDED AS FOLLOWS: " WHEREAS THE PERFORMANCE OF THIS CONTRACT IMPOSES SPECIAL OBLIGATIONS ON TRAPIL, THE LATTER SHALL BE ENTITLED, IN CONSIDERATION OF THE SAID OBLIGATIONS, TO DEBIT THE OIL COMPANY, WHICH AGREES THERETO, WITH THE SUM OF 0 FR. 20 FOR EACH CUBIC METRE OF GASOIL MOVED. THESE INVOICES SHALL BE QUITE SEPARATE FROM THOSE REFERRED TO IN ARTICLES 13 AND 14 OF THE PRESENT CONTRACT." (ARTICLES 13 AND 14 REFERRED TO THE TARIFFS FIXED BY THE HOST COUNTRY AND ACCEPTED BY THE COMMITTEE AND WHICH AT THE TIME WERE FR. 9 A CUBIC METRE UP TO 60,000 CUBIC METRES AND FR. 8 A CUBIC METRE ABOVE THIS FIGURE; THE TARIFFS WERE LOWER FOR SHORTER MOVEMENTS).

THESE CONTRACTS WERE VALID FOR THREE MONTHS STARTING FROM 1 ST AUGUST, 1965. THEY WERE FORWARDED " FOR INFORMATION" TO THE GENERAL MANAGER OF THE CEOA, WHO ACKNOWLEDGED RECEIPT, AS WAS THE CASE FOR ALL CONTRACTS OR RIDERS SUBSEQUENTLY CONCLUDED BETWEEN SNOI AND THE OIL COMPANIES ((1) GENERALLY SPEAKING, IN THE FRENCH OIL INDUSTRY SUCH CONTRACTS ARE LIMITED TO A PERIOD OF FOUR MONTHS, RENEWABLE FOR PERIODS OF FOUR MONTHS, I. E. BY MEANS OF TWO RIDERS, OVER A NON- CALENDAR YEAR (RUNNING FROM 1 ST SEPTEMBER TO 1 AUGUST)).

THE CHANGE FROM DIRECT STANDARD PAYMENTS OF FR. 0.20 A CUBIC METRE TO EITHER FR. 0.50 (LAVERA- FEYZIN), FR. 0.75 (FEYZIN- STRASBOURG OR FEYZIN- CHALONS) OR FR. 1.50 (LAVERA- STRASBOURG OR LAVERA- CHALONS) WAS INTRODUCED ON 1 ST JUNE, 1968 AS A RESULT OF RIDERS NO. 2 TO THE CONTRACTS OF 20 TH SEPTEMBER, 1967. THESE RIDERS ALSO CONTAINED CLAUSES COVERING THE EXTENSION OF THE PERIOD CONCERNED AND AN INCREASE IN THE VOLUME OF THE MOVEMENTS AND IN THE TARIFFS CHARGEABLE (THE SLIDING SCALE SYSTEM WAS DISCONTINUED AND THE NEW UNIFORM TARIFFS WERE FR. 5.50, FR. 6.75 OR FR. 9.50

PER CUBIC METRE ACCORDING TO THE DISTANCE).

THESE RIDERS WERE SENT " FOR INFORMATION" TO THE GENERAL
MANAGER OF THE CEOA WITH A LETTER DATED 19 TH AUGUST, 1968 AND
WERE ACKNOWLEDGED BY OAG(68)846 OF 23 RD AUGUST, 1968.

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THIS MODIFICATION WAS SUBSEQUENTLY INCLUDED IN THE CONTRACTS
OF 5 TH SEPTEMBER, 1968, WHICH WERE SENT TO THE GENERAL MANAGER OF
THE CEOA UNDER COVER OF A LETTER DATED 27 TH SEPTEMBER, 1968
(ACKNOWLEDGEMENT OAG(68)974 OF 2 ND OCTOBER, 1968).

THE TARIFFS SHOWN IN THE BOARD'S REPORT NO LONGER APPLY.
THE CURRENT RATES ARE AS FOLLOWS FOR THE DIFFERENT LINES USED FOR
CIVIL MOVEMENTS IN FRANCE:

A. REFINED PRODUCT

TARIFF DIRECT PAYMENT

LAVERA- STRASBOURG OR CHALONS FR. 10.50 CU. M FR. 1.50 CU. M
FEYZIN- STRASBOURG OR CHALONS FR. 7.50 CU. M FR. 0.75 CU. M
LAVERA- FEYZIN FR. 6 CU. M FR. 0.50 CU. M

B. CRUDE PRODUCT

TARIFF DIRECT PAYMENT

LE HAVRE- VALENCIENNES FR. 3.45 TON(1) 0
(1) TO THIS SHOULD BE ADDED AN AMORTIZATION PAYMENT OF FR. 0.60
TON, FOR PIPELINE MODERNIZATION PREFINANCED BY THE OIL COMPANY.
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IN THE CURRENT CONTRACTS, THE CLAUSE COVERING DIRECT PAYMENTS IS STILL SEPARATE FROM THAT RELATING TO TARIFFS; IT IS NOW ENTITLED " FINANCIAL PROVISIONS" AND IS WORDED AS FOLLOWS:
" TRAPIL SHALL BE ENTITLED TO CHARGE THE OIL COMPANY, WHICH AGREES THERETO, THE SUM OF ..." (FR. 0.50, FR. 0.75 OR FR. 1.50, AS THE CASE MAY BE).

II. THE FRENCH AUTHORITIES WERE ENTITLED TO ACT AS THEY DID SINCE THE CEPPC CONFINED ITSELF TO ACCEPTING THE PAYMENT TO TRAPIL OF A PARTIAL PROFIT, AND LEFT IT TO THE FRENCH AUTHORITIES TO WORK OUT A GENERAL SYSTEM OF PAYMENT WHICH WOULD TAKE INTO ACCOUNT THE EFFECTS OF NATIONAL TAXATION POLICY AND THE NEED TO ACHIEVE A DEGREE OF HARMONIZATION WITH THE PROFITS MADE BY TRAPIL FROM OTHER SIMILAR OPERATIONS.

THE QUESTION OF TRAPIL' S REMUNERATION WAS DISCUSSED MANY TIMES BY THE CEPPC BETWEEN 1960 AND 1965.

FOR NON- NATO MOVEMENTS IN FRANCE, THE RELEVANT BASIC DOCUMENT IS A COMPROMISE WORKED OUT BY THE CEOA (AC/120- D/438 OF 11 TH JUNE, 1965), WHICH CONTAINS THE FOLLOWING CONCLUSIONS:

(1) " CEOA WOULD HENCEFORTH PAY TO TRAPIL, AS PROFIT, 6 PERCENT OF THE NET REVENUE RECEIVED BY CEPS ...".

(2) " ALL CONSIDERATIONS WITH REGARD TO ACHIEVING A DEGREE OF HARMONIZATION BETWEEN TRAPIL' S PROFIT GAINED FROM COMMERCIAL OPERATIONS CARRIED OUT IN THE NATO SYSTEM ON THE ONE HAND, AND IN OTHER SYSTEMS MANAGED OR TO BE MANAGED BY TRAPIL ON THE OTHER HAND, ARE THE CONCERN OF THE FRENCH AUTHORITIES." (1) SEE PARAGRAPH 39 OF THE SUMMARY RECORD OF THE CEPPC MEETING ON 14 TH MAY, 1965 (AC/120- R/114): " IF THE COMMITTEE ADOPTED THE PERCENTAGE METHOD, THE COMPROMISE PROPOSAL BY THE GENERAL MANAGER WOULD BE TO APPLY THE SAME 6 PERCENT FIGURE TO SUMS ACTUALLY RECEIVED BY THE CEOA. IF A PROBLEM OF HARMONIZATION BETWEEN PROFITS WERE TO ARISE FOR THIS SURPLUS, IT WOULD BE THE FRENCH AUTHORITIES' TASK TO ACHIEVE SUCH HARMONIZATION BY A RIDER TO THEIR CONTRACT WITH TRAPIL")

(3) " CEPS WOULD NO LONGER PAY THE SERVICE TAX ON TRAPIL' S PROFIT AS IT HAS DONE IN THE PAST." (2) THE SERVICE TAX HAS SINCE BECOME VAT; THE INCREASE IN ITS RATE CAUSED TRAPIL' S PROFIT (6 PERCENT OF NET REVENUE) TO DROP TO 5.49 PERCENT IN 1965,
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5 PERCENT IN 1968 AND 4.88 PERCENT IN 1970)

THIS STUDY WAS CONSIDERED BY THE CEPPC AT ITS MEETING ON 24 TH JUNE, 1965 (AC/120- R/115); IT IS WORTHWHILE QUOTING SOME OF THE STATEMENTS AND THE FINAL DECISION.

PARAGRAPH 27:

" THE GENERAL MANAGER STATED THAT TRAPIL WOULD BE PAID 6 PERCENT OF THE NET REVENUE TO THE NETWORK AND WOULD SUPPORT THE COST OF THE TPS ON ITS REMUNERATION. IN THIS CONTEXT, IT WOULD BE THE

FRENCH AUTHORITIES' RESPONSIBILITY TO TAKE CARE OF ANY QUESTION WHICH MIGHT ARISE."

PARAGRAPH 30:

" THE CHAIRMAN CONSIDERED THE NEW FORMULA WAS IMPORTANT AS, FOR THE FIRST TIME, TRAPIL WOULD HAVE A DEFINITE FINANCIAL INTEREST IN UNDERTAKING OPERATIONS FOR CEPS."

PARAGRAPH 41:

" THE BELGIAN REPRESENTATIVE (STATED THAT) MOREOVER, ANY PROBLEM WHICH MIGHT ARISE IN THE STANDARDIZATION OF RATES SHOULD BE SOLVED BY THE FRENCH AUTHORITIES."

PARAGRAPH 44:

" THE CEPPC AGREED THAT THE AMOUNT TO BE PAID TRAPIL BY CEPS FOR ANY MOVEMENT CARRIED OUT IN FUTURE, IN OR ACROSS FRANCE, SIMILAR TO THOSE AT PRESENT TAKING PLACE OR IN PLANNING, WOULD BE EQUAL TO 6 PERCENT OF THE NET REVENUE OF THE OPERATION."

THESE DOCUMENTS SHOW:

(A) THAT IT WAS THE INTENTION OF THE CEPPC TO LIMIT ITS PAYMENTS TO TRAPIL FOR NON- NATO MOVEMENTS TO A SPECIFIC AMOUNT;
(B) THAT OTHER ASPECTS (TAX POLICY, HARMONIZATION OF PROFITS), THE COMMITTEE LEFT TO THE FRENCH AUTHORITIES.

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FROM THE STRICT PROCEDURAL AND LEGAL POINT OF VIEW, THE GENERAL MANAGER OF THE CEOA AGREED IN THE COURSE OF MEETINGS WITH THE DIRECTOR OF THE SNOI THAT THESE CALCULATIONS WERE

ADMISSIBLE.

SUBJECT TO THE SAFEGUARDING OF "TRADE SECRECY", THE SNOI IS IN A POSITION TO DEMONSTRATE THE REALITY OF THIS HARMONIZATION, PARTICULARLY BY REFERENCE TO THE OPERATION OF THE DONGES- MELUM-METZ MILITARY SYSTEM IN RESPECT OF WHICH A FRANCO- AMERICAN AGREEMENT WAS CONCLUDED IN 1967 ((1) SOME INFORMATION ON THIS SUBJECT HAS BEEN FORWARDED, ON A CONFIDENTIAL BASIS, TO THE GENERAL MANAGER OF THE CEOA.).

III. THE FRENCH AUTHORITIES HAVE ALWAYS RESPECTED THE COMMITMENTS ENTERED INTO WITH THE CEPPC AS REGARDS THE REVENUE FROM "NON- NATO" MOVEMENTS OVER BOTH THE LAVERA- STRASBOURG AND THE HAVRE- VALENCIENNES LINES. THE BOARD OF AUDITORS WAS ABLE TO NOTE THIS IN THE COURSE OF ITS AUDITS.

SINCE THE DIRECT PAYMENTS TO TRAPIL ARE NOT RECORDED IN THE CONFIDENTIAL

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NATO ACCOUNTS AND HAVE NOTHING TO DO WITH FRANCE'S OBLIGATIONS TO THE COMMITTEE, THEY DO NOT COME WITHIN THE PURVIEW OF THE BOARD.

IV. CONTRARY TO THE IMPLICATION IN THE AUDITORS' REPORT, THERE WAS NOTHING SURREPTITIOUS ABOUT THE CONTRACT CLAUSES GOVERNING DIRECT PAYMENTS BY THE OIL COMPANIES TO TRAPIL.

- SINCE IT HAD BEEN DECIDED THAT THIS PROBLEM SHOULD BE SETTLED NATIONALLY, THE FRENCH AUTHORITIES WERE ENTITLED TO DEAL WITH IT IN A CONTRACT GOVERNED BY FRENCH LAW WITHOUT REFERENCE TO ANY INTERNATIONAL AUTHORITY ((2) IN FRANCE, THESE CONTRACTS ARE SIGNED BY THE DIRECTOR OF THE SNOI, ACTING ON BEHALF OF THE MINISTER FOR INDUSTRIAL AND SCIENTIFIC DEVELOPMENT; THEY ARE SENT FOR INFORMATION TO THE MINISTERS OF DEFENCE, FINANCE AND TRANSPORT SO THAT EACH OF THEIR MINISTRIES CAN CHECK THAT THEY ARE CONSISTENT WITH FRENCH MONETARY, TAX AND CUSTOMS LEGISLATION AND WITH THE REGULATIONS REGARDING "MILITARY SAFEGUARDS" AND PUBLIC TRANSPORT CO- ORDINATION (ROAD, RAIL, WATERWAYS AND PIPELINES)).

- NEVERTHELESS, THE GENERAL MANAGER OF THE CEOA HAS ALWAYS RECEIVED "FOR INFORMATION" A COPY OF ALL THE CONTRACTS AND RIDERS SIGNED WITH THE OIL COMPANIES SINCE CIVIL MOVEMENTS BEGAN.

V. THE FIGURES GIVEN BY THE BOARD OF AUDITORS (PAGE 3) ARE INCOMPLETE SINCE THEY REFER TO ONLY ONE OF THE ROUTES FOR CIVIL MOVEMENTS IN FRANCE, VIZ. THE LAVERA- STRASBOURG LINE.

THE FOLLOWING SUMMARY TABLE GIVES DETAILS, AS FROM 1962, OF PAYMENTS TO TRAPIL AND OF THE "NON- NATO" REVENUE PROVIDED BY FRANCE FOR THE CEPS COMPARED WITH THAT PROVIDED BY THE OTHER THREE COUNTRIES CONCERNED (BELGIUM, THE NETHERLANDS AND GERMANY).

PAYMENTS TO TRAPIL AND REVENUE FROM CIVIL USE OF THE SYSTEM

PAYMENTS TO TRAPIL FOR CIVIL USE (EXCLUSIVE OF TAX) (IN FRENCH FRANCS)	REVENUE FROM THE CIVIL USE OF THE SYSTEM (IN FRENCH FRANCS)
--	--

TOTAL FRENCH PORTION IN BELGIUM
 BORNE BY (BEFORE OF SYSTEM THE NETHER-
 BORNE THE OIL DEDUCTION (AFTER DEDUCTION LANDS AND
 BY COMPANIES OF BIC)(1) OF BIC GERMANY
 YEAR NATO

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1962	20,000		1,499,000		
1963	30,000		579,000	3,079,000(2)	
1964	55,000		1,468,000	714,000	
1965	235,000	71,000	236,000	5,236,000	826,000
1966	482,000	210,000	692,000	8,900,000	871,000
1967	444,000	201,000	645,000	7,972,000	1,005,000
1968	649,000	1,201,000	1,850,000	13,044,000	933,000
1969	813,000	2,210,000	3,023,000	17,058,000(3)	981,000
1970	1,125,000	2,796,000	3,921,000	24,371,000(3)	1,195,000
1971	1,187,000	2,678,000	3,865,000	25,946,000(3)	2,780,000

- (1) BIC (IMPOT SUR LES BENEFICES INDUSTRIELS ET COMMERCIAUX -
 TRADE AND INDUSTRIAL PROFITS TAX) AMOUNTS TO 50 PERCENT OF
 THESE SUMS.
- (2) MAINLY OVER THE LAVERA- KEHL LINE, TO MEET THE FUEL CRISIS IN
 GERMANY.
- (3) INCLUDING AMORTIZATION OF THE PREFINANCING OF THE MODERN-
 IZATION WORK ON THE LE HAVRE- VALENCIENNES LINE.

THE FULL SIGNIFICANCE OF THESE FIGURES IS ONLY APPARENT WHEN
 THEY ARE COMPARED WITH THE MILITARY REVENUE FROM THE SYSTEM AND
 WITH THE CONTRIBUTIONS PAID BY ALL OF THE EIGHT COUNTRIES
 CONCERNED.

YEAR	MILITARY REVENUE	CONTRIBUTIONS
1962	22,855,000	9,200,000
1963	24,977,000	4,000,000
1964	26,205,000	13,000,000
1965	26,863,000	12,000,000
1966	28,102,000	12,000,000
1967	29,189,000	8,000,000
1968	31,259,000	8,000,000
1969	32,662,000	10,000,000
1970	34,869,000	18,000,000
1971	34,797,000	21,000,000

IT SHOULD PERHAPS BE POINTED OUT THAT ALL OF THESE FIGURES ARE
 GIVEN IN CURRENT FRANCS.

A MORE DETAILED STUDY WOULD SHOW, MOREOVER, THAT THE FRENCH
 PORTION OF THE CEPS IS AT PRESENT THE ONLY ONE WHERE INCOME
 BALANCES EXPENDITURE.

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THE BOARD'S AUDIT

I. THE BOARD'S STRICTURES CONCERNING THE SCOPE OF AND PROCEDURES FOR AUDITS IN FRANCE DATE BACK TO 1963 AND HAVE NOTHING TO DO WITH THE PROBLEM OF "DIRECT PAYMENTS" TO TRAPIL.

EVER SINCE THE INTRODUCTION OF THE FINANCIAL REGULATIONS FOR THE SYSTEM (APPROVED BY THE CEPPC IN AC/120- R/89 ON 28 TH AND 29 TH MARCH, 1963) - AND THEREFORE BEFORE THE START OF "NON- NATO" MOVEMENTS - THE BOARD OF AUDITORS HAS COMPLAINED THAT FRANCE DOES NOT ALLOW IT TO CARRY OUT AUDITS IN ACCORDANCE WITH WHAT IT CALLS "THE USUAL PROCEDURES".

THE BOARD HAS CONSISTENTLY REFUSED TO RECOGNIZE THAT THE CEPS INVOLVES "ASSOCIATION" AND NOT "INTEGRATION".

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IT HAS ALWAYS SOUGHT TO EQUATE THE SCREENING OF THE ACCOUNTS OF THE DIVISIONS AND THE NATIONAL BODIES WITH THAT OF THE CEOA AND TO APPLY TO THE FORMER THE GENERAL NATO AUDIT REGULATIONS, WITHOUT TAKING INTO ACCOUNT THE SPECIAL PROVISIONS CONCERNING THE FINANCIAL ADMINISTRATION OF THE SYSTEM REFERRED TO IN DOCUMENT C- M(65)38. ALTHOUGH THE CEOA IS A NATO "SUBSIDIARY AGENCY", THIS IS NOT THE CASE FOR THE DIVISIONS AND THE NATIONAL BODIES.

THE FINANCIAL REGULATIONS FOR THE SYSTEM, APPROVED BY THE COMMITTEES, MAKE A CAREFUL DISTINCTION BETWEEN THE "INTERNAL AUDIT" OF THE ACCOUNTS, WHICH IS A NATIONAL RESPONSIBILITY ((1) IT SHOULD BE POINTED OUT THAT THE OPERATING CREDITS FOR THE FRENCH

PORTION OF THE SYSTEM, DISBURSED BY THE CEOA, ARE INCLUDED IN A CHAPTER OF THE BUDGET OF THE MINISTRY FOR INDUSTRIAL AND SCIENTIFIC DEVELOPMENT AND ARE ACCORDINGLY SUBJECT TO THE PROCEDURES GOVERNING FRENCH PUBLIC FUNDS.) AND THE "EXTERNAL AUDIT", WHICH ALONE COMES WITHIN THE PURVIEW OF THE BOARD OF AUDITORS (ARTICLES 4-5 AND 5 OF THE FINANCIAL REGULATIONS).

THE BOARD OF AUDITORS HAS, MOREOVER, SUBMITTED ITS REPORT EVERY YEAR TO THE CEPPC FOR DECISION (WITH A COPY ADDRESSED TO CONFIDENTIAL

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THE SECRETARY GENERAL OF NATO). THE COMMITTEE HAS CONSIDERED THESE REPORTS AND APPROVED THE YEARLY ACCOUNTS, NOTWITHSTANDING THE BOARD'S COMMENTS ON THE AUDIT PROCEDURES USED IN THE FRENCH PORTION OF THE SYSTEM.

II. THE PROBLEM OF AUDITS IN FRANCE BY THE BOARD OF AUDITORS WAS FINALLY SETTLED BY THE CEPPC AT ITS MEETING ON 20 TH JANUARY, 1972 IN ACCORDANCE WITH THE PROPOSALS OF THE RAPPORTEUR, MR. CEULEMANS (CF: AC/120- WP/232). IN HIS RECOMMENDATION, THE RAPPORTEUR SAID:

"14 FRANCE: JUSTIFICATION OF EXPENDITURE AND INTERNAL AUDITS THE BOARD POINTED OUT THAT MUCH OF THE EXPENDITURE COULD NOT BE CHECKED AND CONSIDERED THAT AUDITING IN THE DIVISIONS WAS INADEQUATE.

THIS PROBLEM IS BOUND UP WITH THE ORGANIZATION OF THE SYSTEM IN FRANCE AND THE RESPECTIVE ROLES OF THE DIVISIONS, SNOI, TRAPIL, SEA AND THE FRENCH GOVERNMENTAL SERVICES. FRANCE ARGUES THAT THE VARIOUS BODIES AND FACILITIES BY MEANS OF WHICH THE SYSTEM IS OPERATED CANNOT BE CONSIDERED AS AN INTEGRAL PART OF THE SYSTEM AND THAT, CONSEQUENTLY, NATIONAL ADMINISTRATIVE PROCEDURES CANNOT BE CALLED INTO QUESTION.

THIS IS A LONG- STANDING QUESTION, WHICH CROPS UP IN EVERY REPORT BY THE BOARD OF AUDITORS. IT OUGHT TO BE SETTLED ONCE AND FOR ALL BY THE COMMITTEE IN THE LIGHT OF THE DETAILED EXPLANATIONS PROVIDED BY FRANCE AND THE BOARD."

IN THE INTERESTS OF CLARITY, THE ATTACHED ANNEX II CONTAINS:

- (1) A MEMORANDUM BY MR. BANDURSKI, OF THE NATO BOARD OF AUDITORS, DATED 21 ST FEBRUARY, 1969.
- (2) A COPY FOR THE YEAR 1967 OF THE ANNUAL CERTIFICATE PREPARED BY THE STATE AUDITOR ATTACHED TO TRAPIL DESCRIBING THE RESULTS OF HIS AUDIT.
- (3) A NOTE DATED 7 TH DECEMBER, 1971 ON THE AUDITING OF ACCOUNTS IN FRANCE, FORWARDED TO MR. CEULEMANS BY THE SNOI.
- (4) AN EXTRACT FROM THE CEPPC SUMMARY RECORD (AC/120- R/179) CONTAINING THE COMMITTEE'S DECISION ON THE PROBLEMS OF AUDITING IN FRANCE.

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THE SYSTEM WHICH HAS BEEN DEvised MAY BE SUMMED UP AS FOLLOWS:

- THE BOARD OF AUDITORS EXAMINES IN THE SNOI OFFICES ALL THE ACCOUNTING DOCUMENTS AND VOUCHERS RELATING TO THE BUDGETS VOTED BY THE COMMITTEES (WHETHER THEY COME FROM TRAPIL, THE SERVICE DES ESSENCES OR THE SNOI ITSELF).

IN THE COURSE OF THIS YEARLY EXAMINATION, WHICH TAKES MORE THAN A MONTH, THE BOARD OF AUDITORS IS ABLE TO OBTAIN FROM THE SNOI ALL RELEVANT EXPLANATIONS AND, IF NECESSARY, ADDITIONAL ACCOUNTING DOCUMENTS.

- THE BOARD CAN CONTACT THE STATE AUDITOR SECONDED TO TRAPIL AND THE CHARTERED ACCOUNTANTS WHO WORK WITH HIM IN ORDER TO OBTAIN ANY FURTHER DETAILS AND, IF NECESSARY, SUGGEST ADDITIONAL INTERNAL AUDITS.
- IT HAS NOT, HOWEVER, BEEN ACCEPTED THAT THE BOARD OF AUDITORS SHOULD EXAMINE ON THE SPOT TRAPIL'S OWN ACCOUNTS OR THOSE OF THE SERVICES DES ESSENCES OF THE MINISTRY OF DEFENCE WHICH ARE, MOREOVER, SUBJECT TO NATIONAL AUDITS.
- EACH YEAR THE STATE AUDITOR WITH TRAPIL ISSUES AN ATTESTATION CERTIFYING THE ACCURACY OF TRAPIL'S ACCOUNTS AND THE ELIGIBILITY OF THE COMPANY'S EXPENDITURE FOR FINANCING FROM THE NATO BUDGET.

III. WITH REGARD TO THE REVENUE RELATING TO FRENCH COMMITMENTS FOR " NON- NATO" MOVEMENTS, WHICH, IT IS RECALLED, ARE GOVERNED BY BILATERAL AGREEMENTS BETWEEN THE SYSTEM AND THE HOST COUNTRY, THE BOARD OF AUDITORS IS ABLE TO CHECK THROUGH THE CEOA ACCOUNTS AT THE INVOICING AND RECEIVING STAGE.

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REF: USNATO 2754

THE CEOA RECEIVES ALL THE NECESSARY STOCK ACCOUNTING DETAILS (RECEIPTS, PAYMENTS, LOSSES...) FROM THE DIVISIONS; IT SENDS PRO FORMA INVOICES TO THE SNOI EACH MONTH AND THE LATTER, AFTER CHECKING, INVOICES THE OIL COMPANIES (WITH A COPY TO THE CEOA).

TRAPIL MERELY COLLECTS THE INVOICED SUMS FROM THE OIL COMPANIES AND, ON THE INSTRUCTIONS OF THE SNOI, FORWARDS THEM TO THE CEOA AFTER HAVING DEDUCTED A STANDARD AMOUNT FOR THE TRADE AND INDUSTRIAL PROFITS TAX PAYABLE TO THE FRENCH TREASURY.

CONSEQUENTLY, THIS OPERATION DOES NOT CONCERN THE STATE AUDITOR WITH TRAPIL SINCE THE FIRM IS MERELY ACTING AS AN INTERMEDIARY.

AS TO THE SO CALLED "6 PERCENT" PAYMENT TO TRAPIL, FROM THE POINT OF VIEW OF THE CEPS ACCOUNTS THIS IS NOT A REVENUE BUT CONFIDENTIAL

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AN OUTLAY, INCLUDED UNDER ITEM 7 OF CHAPTER 09 OF THE SPECIAL BUDGETS FOR THE CIVIL USE OF THE SYSTEM APPROVED BY THE COMMITTEES; IT IS ACCORDINGLY ACCOUNTED FOR LIKE THE REST OF THE OPERATING COSTS.

FINALLY, THE " DIRECT PAYMENTS" MADE BY THE OIL COMPANIES TO TRAPIL FOR THE PURPOSE OF HARMONIZING THE LATTER'S PROFITS HAVE NOTHING TO DO WITH THE FRENCH COMMITMENTS TO CEPS; THEY HAVE NOTHING TO DO WITH THE NATO ACCOUNTS AND APPEAR IN TRAPIL'S GENERAL ACCOUNTS UNDER THE COMANY'S NORMAL TRADING ACTIVITIES.

IF THE AUDITORS' PROPOSALS WERE ACCEPTED, THE RESULT WOULD BE AN EXTENSION OF THEIR TERMS OF REFERENCE WHICH ARE TO CHECK, BY MEANS OF AN EXTERNAL AUDIT, THAT THE COMMITMENTS ENTERED INTO WITH THE NATO COMMITTEES CONCERNED HAVE BEEN OBSERVED. THIS HAS ALWAYS BEEN THE CASE FOR THE FRENCH PORTION OF THE SYSTEM.

IT APPEARS, MOREOVER, THAT THE BOARD OF AUDITORS IS CONFUSING " ADMINISTRATIVE RESPONSIBILITY" WITH " CONTROL" IN THE FIELD OF " NON- NATO" ACTIVITIES, FOR WHICH NEITHER THE CEOA NOR THE CEPS HAS A LEGAL FUNCTION AND WHICH COME

ESSENTIALLY WITHIN THE PROVINCE OF THE FOUR HOST COUNTRIES CONCERNED.

IT IS FOR THIS REASON THAT THE FRENCH AUTHORITIES - WHICH ALREADY SEND FOR THE INFORMATION OF THE CEOA GENERAL MANAGER, COPIES OF ALL THE CONTRACTS AND RIDERS CONCLUDED WITH THE OIL COMANIES - DO NOT INTEND TO ACCEPT THE AUDITORS' PROPOSALS, WHICH CALL INTO QUESTION PROCEDURES WHICH HAVE BEEN CAREFULLY DESIGNED TO PROTECT THE FINANCIAL AND ECONOMIC INTERESTS OF NATO AND THE COUNTRIES IN QUESTION AND WHICH MIGHT WELL JEOPARDIZE ONCE FOR ALL THE USE OF THE SYSTEM FOR "NON- NATO" PURPOSES.

FINALLY, AND WITH REFERENCE TO THE LAST PARAGRAPH OF THE AUDITORS' REPORT, IT IS ESSENTIAL TO RECALL THAT:

- TRAPIL IS NOT " A COMPANY WHICH IS PAID BY NATO TO MANAGE THE SYSTEM". IT HAS NO LEGAL LINK WITH THE CEPS; IT IS A CONFIDENTIAL

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TRADING COMPANY (1) WHICH CARRIES OUT OPERATIONS FOR THE FRENCH STATE AND IS USED, UNDER THE DIRECTION OF THE SNOI AND IN CONJUNCTION WITH THE SERVICE DES ESSENCES DES ARMEES, TO RUN THE FRENCH PORTION OF THE SYSTEM. IT RECEIVES NO PAYMENT OUT OF COMMON FUNDS FOR ITS CONTRIBUTION TO MILITARY OPERATIONS AND A FEE OF 4.88 PERCENT OF THE SUMS RECEIVED BY CEPS FOR CIVIL OPERATIONS.

(1) THE PRIVATE OR SEMI- PUBLIC OIL COMPANIES WHICH HAVE AGREED TO CONTRIBUTE TO THE DEVELOPMENT OF CIVIL MOVEMENTS OVER THE FRENCH PORTION OF THE SYSTEM POSSESS 54 PERCENT OF THE CAPITAL OF TRAPIL.

THE FRENCH AUTHORITIES, ACTING IN ACCORDANCE WITH THEIR UNDISPUTED RIGHTS AS RECOGNIZED BY THE COMMITTEES, HAVE AUTHORIZED THE OIL COMPANIES, WHICH ARE THEIR CONTRACTING PARTNERS FOR CIVIL MOVEMENTS, TO MAKE " DIRECT PAYMENTS" TO TRAPIL WITH A VIEW TOACHIEVING HARMONIZATION BETWEEN THE PROFIT WHICH THE COMPANY CAN JUSTIFIABLY CLAIM FOR ITS CONTRIBUTION TO THE MILITARY AND CIVIL OPERATION OF THE SYSTEM AND THAT WHICH IT EARNS THROUGH THE ADMINISTRATION OF OTHER PIPELINE SYSTEMS.

- IN ACTING THUS, THE FRENCH AUTHORITIES HAVE NOT DEFAULTED ON THEIR OBLIGATIONS VIS- A- VIS THE NATO COMMITTEES. ON THE CONTRARY, THEY HAVE ALWAYS SCRUPULOUSLY RESPECTED THEM BY SEEKING TO EXPAND CIVIL MOVEMENTS AND CONSEQUENTLY TO INCREASE THE PROFIT TO CEPS.

ANNEXES T THE DETAILED MEMORANDUM

ANNEX I - PHOTOCOPY OF THE FIRST PAGE OF DOCUMENT

AC/120- D/680 DATED 20 TH NOVEMBER, 19700.

ANNEX II - A - MEMORANDUM BY MR. BANDURSKI, OF THE NATO BOARD
OF AUDITORS, DATED 21 ST FEBRUARY, 1969.

B - A COPY FOR THE YEAR 1967 OF THE ANNUAL CERTIFICATE ISSUED
BY THE STATE AUDITOR ATTACHED TO TRAPIL DESCRIBING THE RESULTS
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OF HIS AUDIT.

C - NOTE DATED 7 TH DECEMBER, 1971 CONCERNING THE AUDITING
OF ACCOUNTS IN FRANCE SENT TO MR. CEULEMANS BY THE SNOI.

D - EXTRACT FROM THE CEPPC SUMMARY RECORD (AC/120- R/179)
CONTAINING THE COMMITTEE' S DECISION ON THE AUDITING OF ACCOUNTS
IN FRANCE (MEETING OF 20 TH JANUARY, 1972).

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FM USMISSION NATO
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INFO USCINCEUR
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C O N F I D E N T I A L SECTION 7 OF 12 USNATO 2846

REF: USNATO 2754

ANNEX I

ANNEXHA TO AC/120- D/680
NATO RESTRICTED

OA0 (70) D/710

ORIGINAL: FRENCH

20 TH NOVEMBER, 1970

GENERAL CONDITIONS FOR THE MOVEMENT OF PETROLEUM PRODUCTS
FROM LAVERA TO FEYZIN, REICHSTETT, LA WANTZENAU AND CHALONS
S/ MARNE AND FROM FEYZIN TO REICHSTETT, LA WANTZENUA AND
CHALONS S/ MARNE FOR NON- NAT PURPOSES
FROM 1 ST JANUARY, 1971 TO 31 ST DECEMBER, 1971

1 ST PHASE - THE FRENCH GOVERNMENT PROPOSES AND CEPPC AND CEPO,
IN CONSULTATION WITH CINCENT, ACCEPT THAT MOVEMENT OPERATIONS
FOR NON- MILITARY PURPOSES BE CARRIED OUT IN ACCORDANCE WITH THE
FOLLOWING CONDITIONS:
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ARTICLE 1 - OBJECT

1.1 THE FOLLOWING GENERAL CONDITIONS CONSTITUTE THE PRINCIPLES
IN ACCORDANCE WITH WHICH ALL THE OPERATIONS IN QUESTION SHOULD
BE CARRIED OUT IN THE INTEREST OF THE CENTRAL EUROPE
PIPELINE SYSTEM, HEREINAFTER CALLED THE CEPS. THESE OPERATIONS
ARE INCLUDED IN THE NORMAL OPERATIONS OF THIS SYSTEM IN
CONFORMITY WITH THE FOLLOWING PROVISIONS:

1.2 THE PROCEDURES FOR THEIR APPLICATION WILL BE FIXED
FOR THIS OPERATION:

1.2.1 BY A TECHNICAL AGREEMENT BETWEEN CEOA, RESPONSIBLE
FOR PUTTING THE SYSTEM INTO OPERATION ON BEHALF OF THE CEPS
ON THE ONE SIDE, AND THE SERVICE NATIONAL DES OLEODUCS
INTERALLIES, HEREINAFTER CALLED SNOI, REPRESENTING THE FRENCH
GOVERNMENT ON THE OTHER SIDE;

3 RD PHASE

1.2.2 AND BY ONE OR MORE CONTRACTS BETWEEN SNOI ON THE ONE
SIDE, AND THE OIL COMPANIES CONCERNED ON THE OTHER SIDE.

ARTICLE 2 - SCOPE

2.1 THE SCOPE OF THE PRESENT PROVISIONS IS STRICTLY
LIMITED TO:

- THE PERIOD FROM 1 ST JANUARY, 1971 TO 31 ST DECEMBER, 1971

- THE MOVEMENT OF WHITE PRODUCTS FOR THE OIL COMPANIES
CONCERNED THROUGH THE PIPELINES:

- LAVERA- FEYZIN- LANGRES,
- LANGRES- STRASBOURG,
- AND LANGRES- CHALONS S/ MARNE,
- A TOTAL QUANTITY OF APPROXIMATELY 2,200,000 M3.

ARTICLE 3 - OPERATION AND CONTROL

3.1 NO MODIFICATION WILL BE MADE TO THE RULES IN FORCE
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IN THE CEPS CONCERNING THE DIVISION OF RESPONSIBILITIES,
IN PARTICULAR, WITH A VIEW TO ENSURING THE NECESSARY RELATIONS
WITH THE FRENCH PUBLIC SERVICES CONCERNED.

ANNEX II A

PARIS,
21 ST FEBRUARY, 1969

MEMORANDUM CONCERNING THE MEETING OF 20 TH FEBRUARY, 1969
AT SNOI ON THE SUBJECT OF AUDITS CARRIED OUT BY THE
STATE AUDITOR ATTACHED TO TRAPIL

ATTENDANCE:

MR. FLIPO: CHARTERED ACCOUNTANT RESPONSIBLE TO
THE STATE AUDITOR FOR THE AUDITING OF
THE ACCOUNTS OF TRAPIL

MR. LABOUESSE: CHARTERED ACCOUNTANT

MR. GENTILHOMME: SECRETARY GENERAL OF SNOI

MR. LEPICIER: CHIEF ACCOUNTANT, SNOI

MR. TUENGERTHAL: RAPPORTEUR FOR THE BOARD OF AUDITORS

MR. BANDURSKI: ASSISTANT TO THE BOARD

THE FOLLOWING CONCLUSIONS EMERGED FROM THE DISCUSSION ON THE
DUTIES OF THE STATE AUDITOR IN GENERAL, THE SCOPE OF THE
AUDITS OF THE FINANCIAL TRANSACTIONS RELATING TO NATO AND THE
PROCEDURES APPLIED:

(1) THE AUDITS DO NOT, AS MIGHT HAVE BEEN SUPPOSED, CONCERN
SOLELY THE PROPER PERFORMANCE OF THE CONTRACT CONCLUDED
BETWEEN THE FRENCH STATE AND TRAPIL, BUT ALSO THE ACCURACY OF,
AND JUSTIFICATION FOR, THE FINANCIAL TRANSACTIONS INVOLVING NATO.

(2) THE AUDITS ARE CARRIED OUT BY A CHARTERED ACCOUNTANT
(MR. LABOUESSE) IN THE OFFICES OF TRAPIL ON THE BASIS OF THE
ACCOUNTING DOCUMENTS AND OTHER PAPERS WHICH THE AUDITORS
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WISHES TO SCRUTINIZE. ON- THE- SPOT VISITS TO THE DIVISIONS

ARE THE EXCEPTION AND ONLY TAKE PLACE IF A SPECIAL CASE ARISES.

(3) NO SYSTEMATIC CHECK IS MADE OF THE ORGANIZATIONAL ARRANGEMENTS, THE JUSTIFICATION FOR AND EFFECTIVENESS OF THE FACILITIES MADE AVAILABLE TO NATO AND THE ADMINISTRATIVE PROCEDURES.

(4) THE AUDITS ARE PERFORMED BY MEANS OF SPOT CHECKS ON:

(A) PERSONNEL COSTS;

(B) TRAVELLING EXPENSES;

(C) HOSPITALITY EXPENSES;

(D) OTHER COSTS REIMBURSABLE TO THE STAFF
(TELEPHONE CALLS, ETC....);

(E) EXPENDITURE INCURRED FOR PURCHASES AND SERVICES, THE CONFORMITY OF ORDERS AND CONTRACTS WITH THE RELEVANT ACCEPTANCE CHITS AND INVOICES;

(F) OTHER OPERATING COSTS (CUSTODIAL, AERIAL SURVEILLANCE, P& T CHARGES, ETC....).

(5) NO CHECK IS MADE OF THE INVENTORIES, THE STOCKS AND THE HANDLING OF EQUIPMENT BY THE DIVISIONS; THIS IS DONE BY THE SNOI.

(6) THE AUDIT ALSO COVERS TRAPIL' S OVERHEADS, THE PERCENTAGE ALLOCATIONS BETWEEN THE COMPANY' S DIFFERENT ACTIVITIES AND THE CALCULATION OF THE OVERHEADS CHARGEABLE TO NATO.

(7) THE COMMENTS ARISING FROM CURRENT AUDITS ARE SENT, AS APPROPRIATE, TO THE DIFFERENT SERVICES OR THE TRAPIL MANAGEMENT.

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C O N F I D E N T I A L SECTION 8 OF 12 USNATO 2846

REF: USNATO 2754

THE STATE AUDITOR SENDS AN ANNUAL REPORT TO THE MINISTRY OF FINANCE ON THE ACTIVITIES OF TRAPIL AS A WHOLE; THERE IS NO SPECIAL SECTION ON THE OPERATIONS CARRIED OUT FOR NATO. THIS REPORT CANNOT, THEREFORE, BE USED AS A BASIS FOR THE CERTIFICATE ISSUED BY THE NATO BOARD OF AUDITORS.

IT EMERGED FROM THE DISCUSSIONS THAT THE AUDIT CARRIED OUT BY THE STATE AUDITOR IS EXTENSIVE ENOUGH TO BE USED AS A BASIS FOR OUR AUDIT PROVIDED, HOWEVER, THAT ITS RESULTS ARE MADE KNOWN TO THE BOARD. IT WAS THEREFORE PROPOSED THAT THE STATE AUDITOR SHOULD SEND THE SNOI, IN RESPECT OF EACH FINANCIAL YEAR, A LETTER STATING THE SCOPE AND OUTCOME OF THE AUDITS CONCERNING NATO.

THIS LETTER COULD BE ADDED TO THE REPORTS SENT BY SNOI TO THE CEOA ON THE INTERNAL AUDITS PROVIDED FOR IN THE FINANCIAL REGULATIONS.

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MR. GENTILHOMME AGREED TO FORWARD THIS PROPOSAL TO HIS AUTHORITIES AND TO LET US HAVE THE DOCUMENT IN QUESTION IN RESPECT OF 1967 BEFORE THE CLOSE OF OUR CURRENT AUDIT.

(SIGNED) BANDURSKI

ANNEX II B PARIS,
 23 RD SEPTEMBER, 1969
SENT TO THE CEOA FOR TRANSMISSION TO THE BOARD OF AUDITORS
UNDER COVER OF LETTER NO. 861 OF 20 TH SEPTEMBER, 1969

FRENCH REPUBLIC,
MINISTRY OF FINANCE AND ECONOMIC AFFAIRS,
NATIONAL AUDIT OFFICE

AUDITING OF THE TRANSACTIONS OF TRAPIL ON BEHALF OF NATO (1967)

TO: SERVICE NATIONAL DES OLEODUCS INTERALLIES,
3 AND 5 RUE BARBET DE JOUY, PARIS 7 EME

FROM: STATE AUDITOR

STATE AUDITOR

FOR THE ATTENTION OF MR. GENTILHOMME

BELOW ARE DETAILS OF THE AUDITS WE HAVE CARRIED OUT ON THE INVOICES FOR FINANCIAL YEAR 1967 IN PURSUANCE OF THE AGREEMENT RESULTING FROM THE MEMORANDUM OF 21 ST FEBRUARY, 1967 BY MR. BANDURSKI, ASSISTANT TO THE NATO BOARD OF AUDITORS.

A. TRAPIL INVOICES

IN COMPLIANCE WITH CONTRACT NO. 13 BETWEEN TRAPIL AND THE FRENCH STATE, THE FOLLOWING MONTHLY INVOICES WERE MADE OUT BY TRAPIL.

(A) AN "A" INVOICE COVERING THE SALARIES AND ALLOWANCES OF STAFF ASSIGNED TO NATO OR HAVING WORKED FOR NATO FROM TIME TO TIME. DETAILS OF EACH SALARY ARE GIVEN, TOGETHER WITH THE TIME WORKED AND THE OCCUPATIONAL CATEGORY OF EACH PERSON CONCERNED.

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THIS INVOICE ALSO SHOWS THE OVERALL SOCIAL SECURITY CONTRIBUTIONS FOR THESE SALARIES AND THE INDEMNITY FOR LOSS OF JOB OF 2.9 PERCENT (ARTICLE 10, PARAGRAPH A OF THE CONTRACT). THE PAYMENTS MADE TO THE VALVE CHAMBER GUARDS, WHICH ARE TREATED AS WAGES, ARE INCLUDED IN THIS INVOICE.

AN "A" INVOICE IS MADE OUT FOR EACH NATO DIVISION I. E.:

- NANCY DIVISION;
- AMIENS DIVISION (VALVE CHAMBER GUARDS);
- CHALON- SUR- SAONE DIVISION, AND FOR THE SERVICES COMMON TO ALL THE DIVISIONS.

(B) A "B" INVOICE IS PREPARED FOR EACH OF THESE SAME DIVISIONS IN RESPECT OF TRANSACTIONS RELATING TO THE TRAVELLING EXPENSES OF THE PERSONS REFERRED TO ABOVE AND TO THE KILOMETRES COVERED BY TRAPIL VEHICLES AND THOSE OWNED BY CERTAIN AUTHORIZED EXECUTIVE STAFF.

(C) A "C" INVOICE IS DRAWN UP IN RESPECT OF TRAPIL EXPENSES INCURRED ON BEHALF OF NATO AND AMOUNTING TO LESS THAN FR. 2,000 WITH A DETAILED STATEMENT OF THE EXPENDITURE (EACH ITEM OF WHICH IS BETWEEN 500 AND FR. 2,000).

(D) A "D" INVOICE IS MADE OUT FOR ITEMS OF EXPENDITURE AS ABOVE BUT IN EXCESS OF FR. 2,000. "C" AND "D" INVOICES EXIST FOR EACH DIVISION.

B. AUDIT OPERATIONS

THE AUDIT ENTAILED TWO OPERATIONS, NAMELY:

(1) A CHECK THAT THE INVOICES SUBMITTED BY TRAPIL WERE
ACCURATE AND JUSTIFIED;

(2) A CHECK ON THE AUTHENTICITY AND PURPOSE OF EXPENDITURE
RELATING TO THE REIMBURSEMENT OF TRAPIL OVERHEADS AND ON THE
PERCENTAGE ALLOCATIONS.
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THE FOLLOWING CHECKS WERE MADE ON THE ACCURACY OF, AND
JUSTIFICATION FOR, THE TRAPIL INVOICES;

(A) "A" INVOICES - SPOT-CHECKS (ONE OUT OF FIVE ON THE AVERAGE)
BY COMPARISON WITH E PAYSLIPS AND THEIR SUPPORTING DOCUMENTS;

(B) "B" INVOICES - COMPREHENSIVE CHECK ON THE DISTANCES
COVERED BASED ON THE DRIVERS' TRIP SCHEDULES AND SPOT
CHECKING OF TRAVELLING EXPENSES BY COMPARISON WITH THE SUPPORTING
VOUCHERS; ASSESSMENT OF THE ACCURACY OF THE DISTANCES
RECORDED ON THE BASIS OF THE WORK ASSIGNMENTS AND GEOGRAPHICAL
AREA CONCERNED;

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(C) "C" AND "D" INVOICES - A METHODICAL CHECK WAS MADE OF ALL THE INVOICES AND SUPPORTING ODCUMENTATION FOR EXPENDITURE IN EXCESS OF FR. 500 TO ESTABLISH THAT IT WAS JUSTIFIABLY INCURRED.

IN ADDITION TO THIS DOCUMENTARY SCREENING, RANDOM MATHEMATICAL CHECKS WERE MADE INVOLVING THE CALCULATION OF VAT, ADDITIONS, EVALUATION OF THE PROPORTION OF SOCIAL SECURITY CHARGES, ETC.

THE AUDIT ALSO INCLUDED AN EXAMINATION OF THE GENERAL OPERATING EXPENDITURE OF TRAPIL, THE NATURE OF SUCH EXPENDITURE AND ITS BEARING ON THE OPERATION OF THE NATO SYSTEM, TOGETHER WITH AN ANALYSIS OF EXACTLY HOW COST-SHARING WAS EFFECTED.

IT IS ON THE BASIS OF THESE CHECKS THAT ITEMS OF EXPENDITURE ARE REJECTED AND SO EXCLUDED FROM THE ACCOUNTS IN
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WHICH THEY ARE ALLOCATED TO THE DIFFERENT CATEGORIES OF ACTIVITY.

OUR COMMENTS AND CORRECTIONS IN RESPECT OF THE 1967 AUDITED ACCOUNTS HAVE ALL BEEN FOLLOWED UP.

THE FEW CREDIT NOTES ARE CHECKED IN THE SAME WAY AND IN ACCORDANCE WITH THE SAME CRITERIA AS THE DEBIT NOTES. THE SAME APPLIES TO INVOICES IN RESPECT OF SERVICES, OVERHEADS AND ADDITIONAL COSTS.

LASTLY, THE INVOICES ARE COMPARED EVERY MONTH WITH THE BUDGET CHAPTERS TO WHICH THEY APPLY.

APART FROM THE INEVITABLE CLERICAL ERRORS, WHICH HAVE ALWAYS BEEN CORRECTED TO OUR SATISFACTION, WE CAN CERTIFY THAT THE FINANCIAL TRANSACTIONS OF TRAPIL IN FULFILMENT OF CONTRACT NO. 13 IN 1967 WERE CARRIED OUT IN ACCORDANCE WITH THE RULES AND REGULATIONS. (SIGNED) LOUIS DOMB
STATE AUDITOR

ANNEX II C 7 TH DECEMBER, 1971

MEMORANDUM
CHECKING AND AUDITING OF THE 1967-1968 ADDOUNTS

I. THE BOARD OF AUDITORS HAS EXPRESSED REGRET THAT IT IS NOT ABLE TO CHECK FOR ITSELF THE ACCOUNTS IN THE DIVISIONS AND AT TRAPIL HEADQUARTERS, AND CONSEQUENTLY TO VERIFY THAT THE FINANCIAL TRANSACTIONS HAVE BEEN CARRIED OUT IN ACCORDANCE WITH THE CHARTER.

IN THIS RESPECT, IT IS ONCE AGAIN POINTED OUT:

(A) THAT THERE IS NO FINANCIAL ADMINISTRATION WITHIN THE FRENCH DIVISIONS; ALL ACCOUNTING OPERATIONS ARE CENTRALIZED AND PERFORMED IN ACCORDANCE WITH THE PROVISIONS OF THE SERVICE CONTRACT CONCLUDED BETWEEN THE STATE (MINISTRY FOR INDUSTRIAL AND SCIENTIFIC DEVELOPMENT) AND TRAPIL, UNDER THE AUTHORITY OF THE DIRECTEUR DU SERVICE NATIONAL DES OLEODUCS INTERALLIES, WHO IS NOMINATED BY
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MINISTERIAL DECREE;

(B) THAT THE BOARD HAS UNRESTRICTED ACCESS AT SNOI TO ALL THE DOCUMENTS NECESSARY FOR ITS AUDIT;

(C) THAT, UNDER THE VERY TERMS OF THE CHARTER OF THE SYSTEM, ADMINISTRATIVE QUESTIONS AND INTERNAL AUDITS ARE A NATIONAL RESPONSIBILITY (SEE C- M(56)129) AND ARE RECOGNIZED AS SUCH IN THE FINANCIAL REGULATIONS GOVERNING THE SYSTEM.

THE BODIES AND DIVISIONS ESTABLISHED ON A NATIONAL BASIS CANNOT BE TREATED IN THE SAME WAY AS THE CEOA, WHICH IS A NATO SUBSIDIARY BODY.

THIS BASIC DISTINCTION IS CLEARLY MADE IN THE STATUTE OF THE NPLOS, WHICH IS ESPECIALLY ADAPTED TO THE SPECIFIC ORGANIZATIONAL AND OPERATIONAL CONDITIONS OF THE CENTRAL EUROPE SYSTEM.

IT MUST BE REMEMBERED THAT THE CHARTER (C- M(65)49) INCORPORATES THE FOLLOWING THREE BASIC DOCUMENTS:

- C- M(56)129 IN CHAPTER I
- C- M(57)104 IN CHAPTER II AND
- C- M(65)38 IN CHAPTER III

THESE DOCUMENTS ARE COMPLEMENTARY AND CANNOT BE READ IN ISOLATION.

CONCLUSIONS

THE FRENCH AUTHORITIES HAVE THE FOLLOWING SUGGESTIONS TO MAKE TO THE COMMITTEE:

(1) WITH REGARD TO THE EXPENDITURE COVERED BY THE CONTRACT BETWEEN THE STATE AND TRAPIL, THE STATE AUDITOR' S CERTIFICATE SHOULD BE CONSIDERED SUFFICIENT;

(2) WITH REGARD TO THE EXPENDITURE INCURRED BY THE SEA, THE DIRECTOR OF SNOI SHOULD PROVIDE A FURTHER ATTESTATION CERTIFYING THAT, ON THE BASIS OF THE CHECKS CARRIED OUT,

THE EXPENDITURE IN QUESTION IS INDEED CHARGEABLE TO THE
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BUDGET OF DIVISION II.

(3) THE INTERNAL AUDITS WITHIN THE DIVISIONS SHOULD BE
SUPPLEMENTED BY SPOT CHECKS COVERING ADDITIONAL ITEMS.

HWEVER, IN VIEW OF THE ECONOMY DRIVE, SNOI WILL DO ITS BEST
TO INCREASE THE SCOPE OF THE AUDITS WITHOUT TAKING ON
MORE STAFF.

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SAJ-01 SS-15 NSC-10 OIC-04 ACDA-19 OMB-01 IO-13 EB-11

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INFO USCINCEUR
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ANNEX II D

AC/120- R/179

III. AUDITORS' REPORT FOR 1967, INTERNAL AUDITS IN FRANCE

REFERENCES: AC/120- D/648, ANNEX III PARAGRAPHS 4-6

AC/120- WP/232, PARAGRAPH 14

AC/120- R/171, PARAGRAPH 22(A) AND (B)

AC/120- R/175, PARAGRAPH 6(4)

AC/120- D/679 (REPORT FOR 1968) ANNEX III,

PARAGRAPHS 4-8

AC/120- R/176, PARAGRAPH 5

3. THE COMMITTEE:

AUDITS OF TRAPIL EXPENDITURES FOR DIVISIONS 1, 3 AND PARTLY 2

(1) NOTED THE CHAIRMAN OF THE BOARD OF AUDITORS' STATEMENT THAT THE BOARD COULD NOT NOW APPLY NORMALLY RECOGNIZED AND ACCEPTED PROCEDURES WITH RESPECT TO TRAPIL, INCLUDING INDEPENDENT AUDIT
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AND EXAMINATION; BUT THAT IN AN EFFORT TO CO- OPERATE AND TO RESOLVE THE EXISTING PROBLEMS IT WOULD IN MAKING ITS REVIEW OF THE YEAR 1970 CONTINUE TO MAKE USE OF THE WORK OF THE INTERNAL AND NATIONAL AUDITORS; THAT IT MUST HOWEVER HAVE ACCESS TO THEIR AUDIT PROGRAMMES AND REPORTS, THAT THE NATO AUDITORS MUST HAVE THE OPPORTUNITY TO MEET THE AUDITORS, TO ASK THEM TO REVIEW CERTAIN AREAS, APPORTIONMENTS, ETC., FOR THEM, AND TO LOOK AT SUPPORTING DOCUMENTS;

(2) NOTED THE STATEMENT BY THE FRENCH REPRESENTATIVE THAT PROCEDURES HAD ALREADY BEEN MODIFIED, THAT THE NATO AUDITORS COULD MEET THE EXPERTS OF THE FRENCH STATE CONTROLLER IN ORDER TO ASK FOR DETAILS AND TO LOOK AT ANY SUPPORTING DOCUMENT THEY WISHED TO SEE (AS ALSO RECORDED IN AC/120- R/175, PARAGRAPH 6(4)), THAT ALSO IN FUTURE SUCH MEETINGS COULD BE ARRANGED TO SATISFY THE REQUESTS AS STATED ABOVE;

(3) AGREED TO CONSIDER SATISFACTORY, WHEN AUGMENTED TO THE EXTENT NECESSARY AS PROVIDED IN (1) ABOVE, THE ATTESTATION BY THE FRENCH INTERNAL AUDITOR (CONTROLEUR D' ETAT) AS TO THE ACCURACY OF THE TRAPIL ACCOUNTS AND ALSO THE ELIGIBILITY OF ITS EXPENDITURES FOR INCLUSION IN THE CEPS BUDGET;

AUDITS OF SEA EXPENDITURES FOR DIVISION 2

(4) NOTED THAT THE DIRECTOR OF SNOI WOULD PROVIDE AN ATTESTATION THAT EXPENDITURES INCURRED BY SEA FOR THE PERSONNEL OF DIVISION 2 WERE CHARGEABLE TO THE CEPS BUDGET AND IN CONFORMITY WITH THE SYSTEM' S RULES AND PROVISIONS, TO BE PROVIDED FROM ACCOUNTS HELD AT SNOI AND ADDITIONAL CHECKS TO BE MADE BY SNOI, TO INCLUDE POSSIBLE REQUESTS IN DETAIL EXPRESSED BY THE NATO AUDITORS;

(5) NOTED THE STATEMENT BY THE CHAIRMAN OF THE BOARD OF AUDITORS THAT THE BOARD WOULD MAKE EVERY EFFORT TO CO- OPERATE AND THAT IT WOULD EXPECT TO HAVE THE SAME OPPORTUNITIES AS DESCRIBED IN (1) ABOVE TO SEE THE FRENCH AUDITORS' PROGRAMMES, PAPERS, ETC., AND TO PROPOSE, IF NECESSARY, ADDITIONAL AUDIT EFFORT;

AUDITS OF STORES AND INVENTORIES AND OTHER BASIC DATA IN THE FRENCH DIVISIONS

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(6) NOTED THAT SNOI WAS PREPARED TO INTENSIFY THE INTERNAL CONTROL OF FINANCIAL AND ADMINISTRATIVE ACTIVITIES IN THE DIVISIONS, WITHOUT ASKING FOR A NEW POST OF INTERNAL CONTROLLER, BY EXPANDING CONTROL AND SPOT CHECKS FROM STORES ACCOUNTING AND INVENTORIES TO BASIC DATA FOR CALCULATING PERSONNEL AND VEHICLE COSTS, SUPPLY PROCEDURES, ETC.;

CONCLUSION

(7) NOTED THAT IN THIS WAY ALL COMMENTS ON AUDITING IN FRANCE MADE BY THE NATO BOARD OF AUDITORS IN THEIR REPORTS ON THE YEARS 1967, 1968 AND 1969 COULD BE SETTLED BY MUTUAL CO- OPERATION AND CONFIDENCE, AND APPROVED THE ARRANGEMENTS MADE.

IV. TARIFF STUDIES

DOCUMENT: AC/120- D/738

REFERENCES: AC/120- R/177, PARAGRAPH 5(3)

AC/120- R/178, ITEM IV

4. THE COMMITTEE;

(1) NOTED THAT THE GENERAL MANAGER HAD PREPARED A DOCUMENT (AT REFERENCE) ON MILITARY TARIFFS; THIS INCLUDED HIS VERBAL PRESENTATION AT THE LAST MEETING AND HIS PROPOSALS TO RAISE THE TARIFFS AND TO REDUCE THE SHORTFALL BY F. FR. 15 MILLION;

(2) AGREED THAT THE AIM OF THIS DOCUMENT WAS THE RIGHT ONE AND THAT IT SHOULD, AS A MATTER OF URGENCY, BE EXAMINED BY THE COMMITTEE; THAT IT SHOULD ASSIST IN ARRIVING AT DECISIONS TO TAKE MEASURES TO LOWER NATIONAL CONTRIBUTIONS TO THE CEPES;

(3) ASKED CEOA TO COMPLETE THEIR STUDIES AS OUTLINED BY THE GENERAL MANAGER;

(4) INVITED NATIONAL REPRESENTATIVES TO SUBMIT THEIR PROPOSALS OR BACKGROUND INFORMATION DIRECTLY TO CEOA.

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INFO OCT-01 ADP-00 CIAE-00 PM-07 INR-10 L-03 NEA-10

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SAJ-01 SS-15 NSC-10 OIC-04 ACDA-19 OMB-01 IO-13 EB-11

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C O N F I D E N T I A L SECTION 11 OF 12 USNATO 2846

ORIGINAL: ENGLISH DOCUMENT
30 OCTOBER, 1972 BAI(R-85/72)2216

SPECIAL REPORT ON CERTAIN CONTRACTS FOR THE CIVIL USE
OF PORTIONS OF THE NATO CENTRAL EUROPE PIPELINE SYSTEM

PLACE OF AUDIT: CEOA, VERSAILLES
OFFICIALS CONTACTED: GENERAL ROBERTUS,
 GENERAL MANAGER, CEOA
MEMBRE RAPPORTEUR: MR. R. DRAKERT
AUDIT TEAM: MR. R. VAN WORT

1. INTRODUCTION

THE NATO CENTRAL EUROPE PIPELINE SYSTEM IS COMPRISED OF NINE DIVISIONS IN EUROPE. THREE DIVISIONS ARE LOCATED IN FRANCE. TWO OF THESE THREE FRENCH DIVISIONS ARE MANAGED BY THE SOCIETE DES TRANSPORTS PETROLIERS PAR PIPELINE (TRAPIL) UNDER AN AGREEMENT WITH THE SERVICE NATIONAL DES OLEUDUCS INTERALLIES
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(SNOI), THE FRENCH GOVERNMENT SERVICE RESPONSIBLE FOR RUNNING THE SYSTEM IN FRANCE.

TRAPIL IS REIMBURSED BY THE CENTRAL EUROPE OPERATING AGENCY FOR ALL EXPENSES INCURRED AND FOR A PART OF ITS OVERHEAD EXPENSES. IN ADDITION, TRAPIL RECEIVES FROM THE CENTRAL EUROPE OPERATING AGENCY AN ANNUAL FEE OF 6 PERCENT OF THE NET RECEIPTS FROM THE CIVIL USERS OF THE NATO PIPELINES COMPRISING THE FRENCH DIVISIONS.

APPROXIMATELY 51 PERCENT OF TRAPIL' S STOCK IS OWNED BY ORGANIZATIONS OF THE FRENCH GOVERNMENT. APPROXIMATELY 30 PERCENT IS OWNED BY MAJOR OIL COMPANIES, INCLUDING THOSE COMPANIES PARTIES TO THE CONTRACTS WHICH ARE DISCUSSED IN THIS REPORT.

2. FINDINGS

WHEN MAKING OUR CURRENT REVIEW OF THE FINANCIAL OPERATIONS OF THE FRENCH DIVISIONS OF THE SYSTEM, WE LEARNED THAT AMENDMENTS TO CERTAIN CONTRACTS BETWEEN SEVERAL MAJOR OIL COMPANIES AND THE SNOI FOR THE CIVIL USE BY THE OIL COMPANIES OF PORTIONS OF THE NATO PIPELINE SYSTEM IN FRANCE CALLED FOR SUBSTANTIAL PAYMENTS BY THE OIL COMPANIES TO TRAPIL. THESE PAYMENTS ARE IN ADDITION TO THE TARIFFS PAID BY THE OIL COMPANIES TO CEOA FOR THE CIVIL USE OF THE NATO SYSTEM UNDER OTHER PROVISIONS OF THE SAME CONTRACTS.

WE HAVE BEEN INFORMED BY THE PRESENT GENERAL MANAGER OF CEOA THAT THE AMENDMENTS CALLING FOR ADDITIONAL PAYMENTS TO TRAPIL WERE KNOWN TO THE FORMER GENERAL MANAGER. WE HAVE BEEN ADVISED BY THE PRESENT GENERAL MANAGER THAT THEIR SIGNIFICANCE WAS NOT MADE KNOWN TO HIM UNTIL RECENTLY AND THAT THE EXISTENCE OF THESE SPECIAL ARRANGEMENTS WAS NOT KNOWN TO THE CHAIRMEN OF THE CENTRAL EUROPE PIPELINE POLICY COMMITTEE OR TO THE NATO PIPELINE COMMITTEE UNTIL HE RECENTLY INFORMED THEM.

THESE AMENDMENTS TO THE CONTRACTS AND THESE SUBSTANTIAL ADDITIONAL PAYMENTS WERE NOT KNOWN TO THE NATO BOARD OF AUDITORS UNTIL WE LEARNED OF THEM IN CONNECTION WITH THIS YEAR'S REVIEW.

THE ADDITIONAL PAYMENTS TO TRAPIL BY THE OIL COMPANIES ARE BASED ON THE USE OF PORTIONS OF THE NATO PIPELINE SYSTEM IN
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FRANCE TO TRANSPORT THE OIL COMPANIES' PRODUCTS. THE RATES USED IN COMPUTING THE SPECIAL PAYMENTS TO TRAPIL IN THE THREE YEAR PERIOD 1969 - 1971 ARE SHOWN BELOW, AS ARE THE RATES USED IN COMPUTING THE PAYMENTS TO CEOA.

RATES PER CU. M PAID BY THE OIL COMPANIES FOR CIVIL USE OF THE SYSTEM

	PAID TO CEOA	ADDITIONAL PAYMENTS TO
	(IN F. F.)	TRAPIL (IN F. F.)
1. LAVERA - STRASBOURG	9.50	1.50
2. OYTIER ST. OBLAS -		
STRASBOURG	6.75	0.75
3. LAVERA - FEYZIN	5.50	0.50
4. OYTIER ST. OBLAS -		
CHALONS	6.75	0.75
5. LAVERA - CHALONS	9.50	1.50

THE TOTAL SPECIAL PAYMENTS MADE BY THE OIL COMPANIES TO TRAPIL IN THE THREE YEAR PERIOD 1969 - 1971, AND THE TOTAL PAYMENTS BY THE OIL COMPANIES TO CEOA IN THE SAME PERIOD FOR USE OF THOSE PORTIONS OF THE SYSTEM TO WHICH THE SPECIAL PAYMENTS APPLIED, ARE SHOWN BELOW. ALSO SHOWN ARE THE ANNUAL FEES PAID BY CEOA TO TRAPIL FOR MANAGING THOSE PORTIONS OF THE SYSTEM.

PAYMENTS BASED ON CIVIL USE OF THOSE PORTIONS OF THE SYSTEM TO WHICH SPECIAL PAYMENTS APPLIED

PAYMENTS BY THE OIL	ANNUAL FEES PAID BY
COMPANIES	CEOA
(IN FRENCH FRANCS)	

	TO CEOA	TO TRAPIL	TO TRAPIL
1969	13,218,320	2,211,372	793,099
1970	16,834,617	2,796,254	1,010,077

1971 16,638,567 2,680,035 998,314
TOTALS 46,691,504 7,687,661 2,801,490

(TOTAL FEES PAID BY CEOA TO TRAPIL FOR MANAGING ALL PORTIONS
OF THE SYSTEM WERE 3,850,000 FRENCH FRANCS FOR THE YEARS
1969 - 1971. TOTAL PAYMENTS BY THE OIL COMPANIES TO CEOA FOR
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USE OF THE SYSTEM IN THE SAME PERIOD WERE 64,161,000 FRENCH FRANCS.)

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DESPITE ITS CONTINUING OBJECTIONS OVER A NUMBER OF YEARS, THE
NATO BOARD OF AUDITORS HAS NOT BEEN PERMITTED BY SNOI TO AUDIT
AND REVIEW IN THE USUAL MANNER THOSE EXPENSES OF TRAPIL WHICH
HAVE BEEN REIMBURSED TO IT BY NATO. NOR HAS THE BOARD OF AUDITORS
BEEN PERMITTED BY SNOI TO AUDIT AND REVIEW TRAPIL' S RECEIPTS
ARISING FROM ITS MANAGEMENT OF PORTIONS OF THE NATO PIPELINE
SYSTEM. INSTEAD, SNOI HAS INSISTED THAT THE BOARD ACCEPT AN
AUDIT PERFORMED FOR SNOI BY A FRENCH CONTROLEUR D' ETAT.
HOWEVER, IN OUR INVESTIGATION OF THE SPECIAL PAYMENTS WHICH ARE
THE SUBJECT OF THIS REPORT, THE BOARD HAS BEEN INFORMED BY THE
CONTROLEUR D' ETAT THAT HE DOES NOT AUDIT OR REVIEW TRAPIL' S
RECEIPTS. ACCORDINGLY, HE COULD NOT BE AWARE OF THE SPECIAL
PAYMENTS AND THEY HAVE NOT BEEN DISCLOSED UNTIL NOW TO THE
BOARD OF AUDITORS OR TO THE RESPONSIBLE NATO
PIPELINE COMMITTEES.

THE BOARD OF AUDITORS HAS COMPILED THE INFORMATION IN THIS REPORT FROM DISCUSSIONS WITH THE PRESENT GENERAL MANAGER OF CEOA AND FROM STATISTICS AND OTHER INFORMATION HE HAS GIVEN TO US.
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HOWEVER, THE BOARD HAS NOT BEEN ABLE TO MAKE AN AUDIT IN THE USUAL SENSE OF THAT TERM. IT HAS NOT ATTEMPTED TO VERIFY OR DISCUSS THE MATERIAL IN THIS REPORT WITH SNOI, WITH TRAPIL, OR WITH THE OIL COMPANIES.

THE BOARD PROPOSES THAT CEOA ASSURE ITSELF, BY WRITTEN CONFIRMATION FROM THE HIGHEST RESPONSIBLE GOVERNMENT ORGANIZATION IN EACH COUNTRY IN WHICH THE SYSTEM OPERATES, THAT IT NOW HAS IN ITS POSSESSION A FULL AND COMPLETE COPY OF ANY AND ALL CONTRACTS OR AGREEMENTS ENTERED INTO WITH RESPECT TO THE ENTIRE PIPELINE SYSTEM, INCLUDING ALL AMENDMENTS. ALSO, THAT IT BE REQUIRED THAT ALL FUTURE OR PENDING CONTRACTS OR AGREEMENTS, AND ALL AMENDMENTS THERETO, BE PRESENTED TO AND APPROVED BY CEOA AND THE CENTRAL EUROPE PIPELINE POLICY COMMITTEE BEFORE THEY ARE SIGNED. THE BOARD OF AUDITORS STRONGLY RECOMMENDS THAT IT BE GIVEN COMPLETE ACCESS WHEN MAKING ITS AUDITS AND REVIEWS FOR THE COUNCIL TO ALL CONTRACTS AND AGREEMENTS, INCLUDING ALL AMENDMENTS; AND THAT IT BE AUTHORISED TO AUDIT AND REVIEW TO THE EXTENT IT DEEMS NECESSARY ALL RECEIPTS AND EXPENDITURES INCURRED BY ALL ORGANIZATIONS MANAGING THE NATO PIPELINE SYSTEM.

OIL COMPANY USERS OF A PART OF NATO'S PIPELINE SYSTEM IN FRANCE MADE VERY SUBSTANTIAL SPECIAL PAYMENTS OVER AN EXTENDED PERIOD TO TRAPIL, A COMPANY WHICH IS PAID BY NATO TO MANAGE THE SYSTEM. THESE PAYMENTS WERE MADE UNDER AGREEMENTS BETWEEN SNOI AND THE OIL COMPANIES AND WERE UNDISCLOSED TO AND UNAPPROVED BY THE RESPONSIBLE NATO COMMITTEES. BECAUSE OF ITS GRAVITY AND SENSITIVITY THIS MATTER IS BEING BROUGHT TO THE DIRECT ATTENTION OF THE COUNCIL BY THIS SPECIAL REPORT.

END QUOTE.

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<< END OF DOCUMENT >>

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